

EXHIBIT A

W H I T S C R E W - B A L L S C H E M E

New Jersey businessman Kenneth Byrnes says he was only trying to clean up the sex-for-hire escort business. Unfortunately, one of his partners bragged to undercover IRS agents that they were "running a national prostitution-money-laundering ring." BY DANIEL GREEN

T

HE PROSPECT OF SEVERAL YEARS IN A FEDERAL PENITENTIARY SEEMS to have sharpened Kenneth Byrnes's self-awareness. "I've been involved in a lot of stupid things in my life, but this takes the cake," he acknowledges. "I'm one of those pie-in-the-sky guys. I get involved in these screwball schemes that blow up in my face." ★ Byrnes is a big guy, six three and maybe 300 pounds, and when he says "screwball scheme," you think Ralph Kramden's glow-in-the-dark wallpaper. But according to government affidavits, the 35-year-old New Jersey man is a central figure in

what is becoming the most sweeping prostitution case in U.S. law-enforcement history. Snared in Operation Out Call, a huge and ongoing Internal Revenue Service sting, Byrnes is alleged to be the brains—to the extent that there were any brains—behind Entertainment Management Services, Inc., a Paramus-based company that processed and laundered more than \$16 million in prostitution credit-card charges. Byrnes and his two partners (one an attorney under suspension from the New Jersey Supreme Court and the other a retired executive with heart trouble) spent more than a year working and sharing business secrets with men who turned out to be undercover IRS agents.

The trio was tape-recorded in more than 500 telephone calls and eight face-to-face meetings with agents, including one in which a partner actually bragged, "I'm running a national prostitution-money-laundering ring, [and] all our clients are pimps and madams."

When gun-toting government agents raided EMS's offices this spring, they seized an incredible cache of records. Confiscated were files detailing more than 20,000 separate transactions in which johns used credit cards to pay for prostitutes' services—including thousands from the New York area. For many of those trysts, the customers left a paper trail of Xeroxed driver's licenses, Social Security

ILLUSTRATION BY CHRISTIAN NORTHEAST
FOR THE JUNE

Copyrighted

numbers, birth dates, home addresses, and telephone numbers, all of which is now being pored over by federal authorities. Very soon, these johns may wish they had eschewed the frequent-flyer miles and paid in cash.

"Any of these businessmen who used credit cards to receive services . . . may end up having to be witnesses," promised Marty Shell, branch chief of the IRS's criminal investigations in Dallas. "I imagine there's going to be some upset spouses and significant others out there."

Byrnes reflects on all this, smoking Marlboros one after another. "We ran a real clean operation," he says in his defense. "Everyone was paid. Everything was on the up-and-up. The only mistake we made—and hindsight is twenty-twenty—is that we got into business with the IRS."

KENNETH BYRNES IS A friendly and likable fellow. His left, combined with a receding blond hairline and King Tut beard, makes him look like an extra from *Goodfellas*. He's got a great, self-deprecating sense of humor. He calls himself Bozo the Clown. He admits to weaknesses for get-rich schemes, the track, and Vegas craps tables that always seem to have him borrowing money from loan sharks. "I have a flair for numbers," he laughs. "I know five-to-seven."

Byrnes says he expects to be indicted soon on federal charges of laundering proceeds from unlawful activities. The lawyers he's consulted have told him that he will likely serve prison time. "I'm going to be married to some promiscuous 350-pound black man for a decade," he jokes, a bit nervously.

Byrnes can't help making the joke, even when he probably shouldn't. He refers to Texas, where his case would likely be tried, as the "fascist version of *Petticoat Junction*." Later, realizing this may serve him poorly at sentencing, he asks that he instead be quoted as saying the Lone Star State "is a wonderful, wonderful place."

Byrnes doesn't really dispute the essence of the government's allegations against him and his partners. "There was sex going on, let's face it," he admits. "To say there wasn't was like *Casablanca*—'I'm shocked that there's gambling going on here.' It's ridiculous."

Yet Byrnes remains adamant that he

did nothing wrong: "This is the total victimless crime. There was no fraud; no one got hurt. At any given time, we could have fucking punched \$300,000, glommed all the money, and took off. But I didn't. We were running an honest operation, which means nothing right now. . . . I've been to a couple of lawyers, and they say, 'Who cares? So you're honest. Al Capone ran an honest bookmaking operation, too.' So I'm screwed."

A LONG TIME AGO, BYRNES WANTED TO BE a sportswriter. He says he was accepted at Columbia University but couldn't afford the tuition. After a brief career selling magazine-printing supplies, he got involved in the world of adult entertainment as the publisher of *Swingers* magazine, later spearheading a failed plan to export pornography to Russia after the fall of Communism.

He eventually landed in the 900-number phone-sex business, and when AT&T shut him down, he moved into the 800-number phone-sex business. It was there, he says, that the lightbulb went on: "In the 800 business, you need the ability to accept credit cards. We went from bank to bank trying to get credit-card [merchant] accounts and weren't getting anywhere. Finally, it dawned on me, as we're doing this fruitless search, that people in the escort service had the same problem. So I came up with the idea of putting everyone under an umbrella organization to try and control the fraud. I thought it was perfectly legitimate."

When a man visits a call girl, he may not want to use cash to pay his tab, which can run upwards of \$300 per hour. Banks, of course, have policies officially prohibiting credit-card accounts for businesses that traffic in prostitution. And so these prostitution enterprises—which often operate ostensibly as escort services, massage parlors, or modeling agencies—have historically laundered their MasterCard or Visa bills on an ad hoc basis, through a friendly flower shop or gas station.

According to the government's allegations, EMS ran the credit-card division for between 70 and 90 prostitution businesses across the country. To protect against fraud, johns would be required not only to sign credit-card imprints but also to fill out forms that included their name, work and home addresses, telephone number, and credit-card information as well. Those documents would be passed on to the

pimp, who would then send copies to EMS. Finally, Byrnes and his associates would launder the charges through their company. Each Thursday, they would FedEx pimps or madams checks for their women's earnings, minus EMS's 15 to 18 percent fee. On a john's credit-card statement, the charge would be discreetly listed as "EMS, Inc."

Working first out of a cramped, messy office on Main Street in Hackensack, Byrnes put in twelve-hour days, sometimes seven times a week. He not only processed the bills but also acted as a fraud-control director. He would chastise prostitutes for adding a zero to a bill and trying to turn a \$100 trick into a \$1,000 one. He would negotiate with johns who were feeding buyer's remorse and claiming their cards had been stolen. "Look, what can you pay?" he'd ask them. "A hundred dollars a month? Fifty?"

"We thought we were cleaning an industry up," Byrnes says with no small measure of pride. "We made it our practice to spot-check with people that they were happy and satisfied with the service. We would match up the authorization to the charge to make sure everything was kosher. . . . It's a very paperwork-intensive business, something you had to be on top of all the time. It was not an easy thing. But it worked."

Byrnes got so caught up in the bookkeeping aspects of the business that he claims he didn't have the time or inclination to pay attention to the more sensational side. He rattle off a handful of celebrity clients he remembers, including the inevitable Charlie Sheen, but adds, "Whether they were stars or businessmen, I didn't really pay attention. It was tough enough to get everything done in one day, much less go through every single charge and call the girl up and say, 'Did he really do this?'"

By dint of his labor and creativity, Byrnes turned EMS into a thriving company, where weeks of \$125,000 in gross billings were not uncommon. The organization moved to nicer digs in Paramus, though Byrnes says that between banking costs, overhead, and customer fraud, there were months "you end up making hushies. Believe me, if we'd made enough money from this, you know where I'd be calling you from now? *Se habla Inglés, por favor?* Okay? Forget about it."

IN FEBRUARY OF LAST YEAR, BYRNES WAS chatting with a Boston madam who told him about a small competitor, Te-

“You end up making bubkes,” Kenneth Byrnes says. “Believe me, if we’d made enough money from this, you know where I’d be calling you from now? *Se habla Inglés, por favor?* Okay? Forget about it.”

jas Financial Services, Inc., a Dallas-based outfit that was also processing credit-card charges for prostitutes. Unknown to anyone, Tejas was part of Operation Out Call and being run by undercover IRS agents.

“When I first heard of them, there was quite a few complaints from the people that were dealing with them. They weren’t getting their checks on time—it was sporadic. They were screwing things up,” Byrnes remembers. “They were giving the industry a bad name.”

While Tejas was doing only a fraction of the trade EMS was, Byrnes phoned the company and said, “Listen, rather than compete, guys, you know, maybe we can show you a few things. Let’s joint-venture it.”

Byrnes and his second in command, attorney Robert “Peepes” Hollis, were apparently running their business with little fear of legal interference. Byrnes says EMS was visited in June 1995 by the U.S. Secret Service (which, as a branch of the Department of the Treasury, investigates credit-card fraud). “They told us we were okay,” Byrnes claims. “They looked over the operation and said, ‘Oh, we don’t have a problem with this.’”

EMS also received more than a handful of calls from various police vice squads that had arrested prostitutes carrying EMS credit-card slips. “We certainly weren’t trying to hide anything,” Byrnes says. “Our name, our phone number, our address was on everything. If we were trying to hide it, we would have gone from location to location, surreptitiously.”

Which isn’t to say EMS wasn’t diligent about making sure the men from Tejas were not government agents. “I asked them twice,” Byrnes says. “They denied it both times. It happens.” (Dave Schneider, a former executive at Clairol and the third EMS partner, was just as rigorous, going as far as to ask one Tejas associate, “Are you sure you’re not an FBI agent?”) Byrnes also sent his partner Peepes Hollis to Dal-

las. “Old fucking Inspector Clouseau there,” Byrnes now laments. “He checked them out, which means he probably never left his hotel room.”

Hollis’s inability to complete that task shouldn’t have come as a surprise. The 1971 graduate of the Washington College of Law at American University has turned out to be a lawyer of remarkable incompetence. A jack-of-all-trades who has represented everyone from murderers to personal-injury victims to families trying to obtain a home mortgage, Hollis has twice received three-year suspensions preventing him from practicing law in New Jersey, including one in 1993 stemming from an appeal of a convicted murderer’s case in which he exhibited “gross negligence [and] conduct involving dishonesty, fraud, deceit or misrepresentation,” according to the state Supreme Court’s decision. (Neither Hollis nor Schneider returned *New York*’s phone calls.)

Foolishly confident that Tejas was not part of some government sting (one of the partners told undercover agents, “You look so much like cops that you can’t be cops”), Byrnes, Hollis, and Schneider began a series of regular meetings with the undercover agents. Looking to utilize Tejas’s American Express merchant account (Amex had closed down EMS’s account), Byrnes proposed that his company begin forwarding to Tejas the names of pimps who wanted to accept American Express. To avoid suspicion, it would refer only a handful of clients each week. In exchange, Tejas and EMS would split all earnings derived from those Amex sales.

It was during these meetings, sometimes at a Newark hotel, sometimes at EMS’s offices, that Byrnes, Hollis, and Schneider divulged all they knew about the world of prostitution, unaware that every incriminating word was being recorded on audio- and sometimes videotape. Often over a pizza dinner (the agents complained they couldn’t get good pizza in Dallas),

Byrnes and his partners boasted that they had processed more than \$16 million in illicit charges over two years—meaning up to \$5 million for Byrnes and company. Since Korean madams refused to take checks, they told investigators, Hollis hand-delivered those proceeds in cash (for an additional fee). Peepes Hollis, the disgraced attorney, was especially proud of EMS’s success, crowing to agents, “I’m running a national prostitution-money-laundering ring.”

Byrnes means when he is reminded of this remarkable boast.

“Fucking Peepes. If you’d been there, you’d understand. C’mon, you sit around with a bunch of guys. It’s more bullshit than anything.”

AFTER TWELVE MONTHS in business, Tejas had processed \$625,675 worth of American Express credit-card charges for clients referred by EMS. At the end of March, the IRS used the information Byrnes and his partners had passed its way to obtain search warrants for 1,000 escort services in more than two dozen states. EMS’s NatWest and Bank of New York accounts were seized. A few days later, agents with warrants stormed into the EMS office and the partners’ homes and loaded thousands of documents and computers into a moving van bound for Texas.

Byrnes now waits for word from his Dallas attorney as to when he will be forced to surrender to authorities. He is still in business with Schneider (who suffered his third heart attack a few weeks after the IRS raid), trying to sell electronic concierge systems to hotels. “I’m trying to make a living, which is not easy,” Byrnes sighs. “Thank God my wife works.”

For an entrepreneur who’s seen so many of his big dreams fail, Byrnes remains wise about EMS: “I think if we’d been left alone,” he says, “it would have been highly successful.” ■